

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 NSC-05

CIEP-01 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

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FM AMEMBASSY PARIS

TO DEPARTMENT OF TREASURY IMMEDIATE

INFO SECSTATE WASHDC 2983

AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

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PASS FEDERAL RESERVE AND COMMERCE

E. O. 11652: N/A

TAGS: EFIN

SUBJECT: PARIS FOREX MARKET

REFTELS: (A) PARIS 20403; (B) PARIS 20404

1. SUMMARY: FOREX MARKET VOLUME QUITE HEAVY WITH BANK OF FRANCE INTERVENING. RATE FLUCTUATING AROUND 4.7940. EUROFRANC RATE 14 TO 15 PERCENT FOR ONE MONTH MONEY. MINISTRY OF FINANCE RAISED TREASURY BILL REPURCHASE RATE TO 8 PERCENT FROM 7 AND 5/8. DAY TO DAY RATE IN CALL MONEY MARKET AT 8 PERCENT, SAME AS BANK OF FRANCE DISCOUNT RATE, LEADING TO SOME SPECULATION THAT DISCOUNT RATE WILL BE RAISED SOON. END SUMMARY.

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2. HEAVY VOLUME COMBINED WITH DEFINITE SIGNS OF

TENSION IN EUROFRANC MARKET CAUSED FAIRLY HEAVY INTERVENTION BY BANK OF FRANCE TODAY AND LIMITED MEASURES TO TIGHTEN MONEY MARKET. FOREX MARKET BELIEVES BANK OF FRANCE INTERVENING MAINLY TO KEEP THINGS FROM GETTING OUT OF HAND WHILE RATE BEING GUIDED TOWARD FRANC/DOLLAR RATE OF 4.80 TO 4.85. NEW ELEMENT IS POSSIBILITY OF CHANGE IN BANK OF FRANCE DISCOUNT RATE. SOME VIEW CURRENT SITUATION AS TEST OF GOF DETERMINATION TO RESTRAIN INFLATION. MANY BELIEVE THAT DISCOUNT RATE MUST GO UP BECAUSE IT NOW EQUALS 8 PERCENT DAY TO DAY RATE IN CALL MONEY MARKET, THEREBY LOSING ITS FUNCTION AS PENALTY RATE. DECISION THIS RESPECT LIKELY SOON. SUCH A MOVE WOULD HELP CALM MARKET.

3. AUTHORITIES CONTINUE TO DESCRIBE SITUATION AS NEITHER GRAVE NOR SPECULATIVE. IN A SENSE THIS ASSESSMENT CORRECT AS FOREX MARKET ANTICIPATED SOME ADJUSTMENT OF FRANC EXCHANGE RATE AND STILL BELIEVES AUTHORITIES ARE USING SEASONAL FACTORS TO CHANGE RATE AS REPORTED REFTELS. HOWEVER, SITUATION CLEARLY MORE TENSE TODAY THAN ON TUESDAY AND IT COULD DETERIORATE, EVEN THOUGH OVERALL FOREX MARKET SEEMS BASICALLY CALM, AS WITNESS NO REACTION TODAY TO AUSTRIAN DECISION TO SEVER LINKS WITH EC "SNAKE". THIS ATTRIBUTED PARTLY TO STRONG DOLLAR.

4. IF AS FOREX MARKET BELIEVES GOF SEEKING TO ADJUST FRANC RATE BY USING SEASONAL FACTORS, THE AUTHORITIES WILL HAVE TO ADDRESS THE INFLATION ISSUE IN MAKING THIS MOVE IN ORDER TO CALM THE FOREX MARKET AT THE DESIRED FRANC EXCHANGE RATE. GOF ITSELF IN LAST INSEE FORECAST AN INFLATION RATE OF 11 PERCENT FOR 1976. CURRENT FOREX MARKET PRESSURE AGAINST FRANC IS BASICALLY A QUESTIONING OF GOF MONETARY AND ECONOMIC POLICIES IN THE MOST PRACTICAL POSSIBLE TERMS. IF GOF RESPONSE TO THIS QUESTION AMBIGUOUS, FOREX MARKET PRESSURE PROBABLY WILL INTENSIFY AND RATE WILL MOVE QUICKLY TOWARDS 5 TO 1. IN SHORT, THE PRICE OF A RELATIVELY SMOOTH MOVE TO A SOMEWHAT LOWER AND SUS-

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TAINABLE FRANCE EXCHANGE RATE WILL BE A RISE IN THE DISCOUNT RATE AND A TIGHTER MONETARY POLICY. THE TIME FOR SUCH A DECISION IS NOT FAR AWAY. PRESUMABLY IT WILL BE TAKEN WHEN THE FRANC/DOLLAR RATE MOVES INTO THE LOW 4.80'S WHICH MOST BELIEVE WILL BE THE RATE BY TOMORROW. THUS A RISE IN THE DISCOUNT RATE OVER THE WEEKEND SEEMS A GOOD POSSIBILITY.
RUSH

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